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burden of the war, he concludes that her racial characteristics will enable her to pull through and even to regain her former commercial position.

In the last chapter are described the events in the United States which preceded our entry into the war. The movements of foreign exchange, the changes in our foreign trade, our loans to Europe, and the ensuing effects upon our credit institutions are clearly set forth. Warm approval is given the Federal Reserve system and the services it was able to render.

Professor Laughlin has embodied in this volume a vast amount of careful research and has brought together in scholarly fashion a mass of scattered material. It is the more to be regretted therefore that he has thought it necessary to introduce so much that is polemical. He never loses a chance to belabor the "obsolete," the "archaic and fallacious" quantity theory of money. His interpretations of the workings of credit are colored throughout by his own theory of credit and money. But if allowance be made for the personal factor the book will be found to be the most valuable exposition of principles and repository of information which has yet been produced in the domain of war finance.

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### ADAMS' AMERICAN RAILWAY ACCOUNTING<sup>1</sup>

THE author states in the preface that this book is a simple analysis of a standardized system of business records, and that it is designed to be helpful to three classes: (1) those who are coming to see that the truthful keeping of records is a solvent for current industrial problems; (2) accounting experts from foreign lands who may desire to learn American methods and apply them to their local problems; and (3) practical accountants, particularly the younger railroad accountants who did not take part in that nation-wide symposium of 1907 to

<sup>1</sup> American Railway Accounting. By Henry C. Adams. Henry Holt & Company, 1918. pp. 465.

1910, out of which emerged American railroad accounting as a standardized system, and who may find in the book an explanation of many of the rules they now apply.

Certainly no one should be better qualified to write the history of the successive steps which have brought about uniformity in railroad accounting, or to explain the reasons which underlie the rules of the Interstate Commerce Commission's accounting classifications. From 1887, when the Commission was created and given jurisdiction over accounts, until 1911, Professor Adams was actively in charge of the accounting and statistical work of the Commission, and he has left a lasting monument in the earlier accounting classifications. He gives full credit to the American Association of Railway Accountants, to whom the volume is dedicated, for their efficient coöperation, but the credit for harmonizing conflicting viewpoints during the critical period of standardization, and for making effective a workable uniformity in railroad accounting must be accorded to Professor Adams more than to any other one person.

The introductory chapter deals in the abstract with the task of the railroad accountant. "The accountant stands at the center of an organized industry; every transaction passes through his hands; every problem must receive the imprint of his mind, for it is he who supplies in concrete form the information upon which reliance must be placed for deciding administrative policies. No other single officer of a great industry is required by virtue of his official position to know as much of all the operations in all departments as the accounting officer."

Chapter 2 deals with the structure of a system of railroad accounts, defining the agencies of transportation and the accountant's definition of a steam railroad. Under the general headings of (1) construction, (2) organization, (3) operation, (4) corporation transactions, and (5) functions of ownership, the chapter contains a very helpful analysis of railroad functions.

The third chapter treats construction costs prior to operation and discusses such questions as the basis of construction

charges, cost and its relation to investment, interest and discount, and depreciation during construction. This is followed by a chapter on construction accounts subsequent to operation, additions and betterments, renewals, and abandoned property. It throws much light on the underlying reasons for the rules which apply to the division of costs between additions and betterments on one hand and operating expenses on the other hand.

The fifth chapter discusses operating expenses and summarizes the philosophy underlying the grouping of the primary expense accounts. Especially helpful is the treatment of the depreciation accounts, a feature which met with strong opposition on the part of many railroads when the subject was under discussion and when equipment depreciation accruals were required by the 1907 classification. Even now there is much misunderstanding concerning the philosophy of these accounts. As between the several methods, Professor Adams favors the "straight line" plan, because it is simple, easily understood, and takes away from the management the temptation of arbitrary adjustments for the sake of making a temporary showing. As to the annuity plan, which is used by some roads to justify a low rate of depreciation charge, he points out that it cannot be assumed that the interest on the amounts set up for the charge in the first year reduces the amount of the charge for the second year unless the management actually creates a depreciation fund to balance the depreciation reserve — something which is rarely done.

In dealing with operating revenues in Chapter 6, Professor Adams is in a critical mood. As he sees it the interest of the auditor in checking revenues has had more consideration than the interest of the traffic manager (who is responsible for naming the rates and for the development of traffic) and of the public service commissions (who must pass upon the reasonableness of such rates). He believes that there should be a closer relation between the revenue accounts and the tariffs. His criticism is somewhat vague and his constructive suggestions are indefinite. One may infer that he advocates something akin to the German accounting methods (altho they are

not referred to) which divide revenues and all traffic statistics by classes, as, for example, the revenues, the tons moved and the ton miles produced under the exceptional tariffs and separately for each of the several class tariffs. The same principle is applied to German passenger accounting. The published reports show the number of passengers, the passenger miles, the revenues, the revenue per passenger and per passenger mile, and the average journey for each of the four classes and for military passenger traffic, with a segregation of suburban passenger traffic. The revenue classifications of the Interstate Commerce Commission do not now require, and never have required, the subdivision of traffic statistics by classes. It may be inferred further that Professor Adams has only recently formed the conclusions set forth in his book, or that either he was not thoroly convinced as to their practicability and desirability when he had charge of the accounts or that he then lacked support in promulgating the revenue classifications accordingly.

In a somewhat guarded manner he calls attention to the fact "that current administrative and judicial opinion looks upon the determination of a reasonable rate as a function of operating expenses," and he takes occasion to deplore the tendency toward the "cost of service" theory. His fundamental criticism is that the relation of railroad rates to the industrial development of the nation finds no place in the cost theory of rates. He fails to make clear, however, the basis for his statement that the development of the revenue classification has been hampered by the cost theory and that that theory is responsible for "the indifference of traffic officials, and the relatively inferior grade of commercial intelligence commonly secured for service in the traffic department."

The remaining three chapters relate to the income, profit and loss, and the general balance sheet accounts. They are helpful and illuminating, altho treated broadly rather than in detail.

On the whole it would seem that the book is of greatest value to the first class of reader to whom it is addressed, namely, the professional accountant and the economist, who

are interested in the broad philosophical discussion of accounting principles and in the analogy between railroad accounting and industrial accounting. The style is somewhat labored. In many places throughout the volume the meaning would be clearer and the message would be more effective were the thought stated in less involved phraseology.

In one respect the book may be disappointing to railroad accountants who may expect to find something more than the volume contains. Knowing of Professor Adams' intimate connection with the development of the accounting classifications, they may look for a more personal tone than the author has assumed, or for interesting historical sidelights on many moot points and for reasons for reversal of policy and practice. For example there is no reference to the subject of a division of expenses between the freight and passenger services, altho such a division was required by the first classification of operating expenses issued by Professor Adams. After an experience of a few years the requirement was withdrawn, to be renewed after Professor Adams had left the Commission. His opinion on the advisability of charging out depreciation on physical structures as well as on units of rolling stock is not given, and there are some troublesome points in connection with accounting for additions and betterments (such as the Kansas City Southern case) which the railroad accountant would like to see discussed.

The book contains 465 pages of which 273 are devoted to reprints of existing classifications which are, or should be, in the hands of all of the three classes of reader mentioned in the preface. These classifications are public documents obtainable at nominal prices, and there appears to be little justification for reprinting them in this volume. The same criticism, however, applies to other volumes on the same subject — Eaton, Hooper, and Sykes. The majority of readers would be more interested if the pages devoted to the lengthy appendices were used to throw further light on obscure or controversial points in the individual accounts.

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